

HDFC INVESTMENTS LIMITED

POLICY ON RELATED PARTY TRANSACTIONS

HDFC Investments Limited

Regd. Office: Ramon House, 169, Backbay Reclamation, H T Parekh Marg, Churchgate,
Mumbai 400 020.

CIN: U65990MH1994PLC083933

Reviewing Authority	Audit Committee of Directors
Approving Authority	Board of Directors
Original Issue Date	March 28, 2016
Current Revision Date:	July 26, 2019
Policy Making Body	Audit Committee of Directors
Version No.	1.1
Effective Date	July 26, 2019
Review Cycle	Annually or as recommended by the Audit Committee of Directors

ABOUT THE COMPANY:

HDFC Investments Limited (hereinafter referred to as 'the Company') is a Non-Deposit accepting Systemically Important Non-Banking Finance Company (NBFCs – ND-SI) registered with the Reserve Bank of India.

SCOPE AND PURPOSE:

During the course of its business, the Company enters into transactions with various entities. Some of the transactions are deemed to be 'Related Party Transactions' as per the Indian Accounting Standard on Related Party Disclosures (Ind AS 24), as notified by the Companies (Accounting Standards) Rules, 2006 and such transactions are duly disclosed in the Annual Reports of the Company.

However, the Companies Act, 2013, the Rules framed thereunder provide for detailed provisions on Related Party Transactions.

This Policy on dealing with Related Party Transactions is framed as per the Revised Regulatory Framework for NBFCs dated November 10, 2014 and is intended to ensure proper approval and reporting of the concerned transactions between the Company and its Related Parties.

Pursuant to the review and recommendations of the Audit Committee of Directors at its meeting held on July 26, 2019 and the provisions of the Companies (Amendment Act), 2017, implementation of Indian Accounting Standards, this Policy was amended by the Board of Directors of the Company at its meeting held on July 26, 2019.

CLARIFICATIONS, AMENDMENTS AND UPDATES:

As the Audit Committee of Directors of the Company is entrusted with the task of reviewing and approving transactions with Related Parties or any subsequent modifications thereof, it shall be the reviewing authority with respect to this Policy and shall recommend this Policy or amendments thereof for the approval of the Board.

The Audit Committee of the Company shall have the authority to issue such guidance and clarifications as may be deemed necessary for the implementation of this Policy. They are also authorized to delegate such powers as may be considered necessary and appropriate for effective administration and enforcement of this Policy to any officer(s) of the Company.

The Audit Committee shall review this Policy at such interval as it may deem necessary and recommend the changes, if any, to this Policy for the approval of the Board of Directors of the Company.

All words and expressions used herein, unless defined herein, shall have the same meaning as respectively assigned to them, in the Applicable Law under reference.

'Applicable Law' includes (a) the Companies Act, 2013 (the Act) including Companies (Amendment) Act, 2017 and rules made thereunder; (b) Indian Accounting Standards; and (c) any other statute, law, standards, regulations or other governmental instruction relating to Related Party Transactions.

PART - B

DEFINITIONS

Arm's Length Transaction

Explanation (b) to Section 188(1) of the Companies Act, 2013 defines an "arm's length transaction" to mean *a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.*

Audit Committee

The term "Audit Committee" means the committee of Board of Directors the Company constituted in accordance with the provisions of Companies Act, 2013 and Rules made thereunder.

Related Party

The term Related Party has been defined under Section 2(76) of the Companies Act, 2013 as follows -

Related Party with reference to a company means -

- i. *a director or his relative;*
- ii. *a key managerial personnel or his relative;*
- iii. *a firm, in which a director, manager or his relative is a partner;*
- iv. *a private company in which a director or manager 1(or his relative) is a member or director;*
- v. *a public company in which a director or manager is a director and holds along with his relatives, more than 2% of its paid-up share capital;*
- vi. *any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;*
- vii. *any person on whose advice, directions or instructions a director or manager is accustomed to act:*

Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

viii. *any body corporate which is —*

(A) a holding, subsidiary or an associate company of such company; or

(B) a subsidiary of a holding company to which it is also a subsidiary;

(C) an investing company or the venturer of the company;";

ix. *such other person as may be prescribed;*

Rule 3 of the Companies (Specification of definitions details) Rules, 2014, provides that a director or key managerial personnel of the holding company or his relative with reference to a company shall also be deemed to be a related party.

Accounting Standard:

As per Para 9 (b) of Indian Accounting Standard 24 (Ind AS 24) pertaining to Related Party Disclosures notified by the Companies (Accounting Standards) Rules, 2006, a Related Party is defined as follows: –

An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).*
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).*
- (iii) Both entities are joint ventures of the same third party.*
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.*
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.*
- (vi) The entity is controlled or jointly controlled by a person identified in (a).*
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).*
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.*

In view of the above definition the terms 'control' and 'significant influence' are defined as follows -

Control (Ind AS 110 – Consolidated Financial Statements)–

An investor controls an investee if and only if the investor has all the following:

- (a) power over the investee;*
- (b) exposure, or rights, to variable returns from its involvement with the investee and*
- (c) the ability to use its power over the investee to affect the amount of the investor's returns.*

Significant Influence (Ind AS 28 – Investments in Associates and Joint Ventures) -

Participation in the financial and/or operating policy decisions of an enterprise, but not control of those policies.

Related Party Transaction

Related Party Transaction means any contract or arrangement with a related party with respect to—

- (a) sale, purchase or supply of any goods or materials;
- (b) selling or otherwise disposing of, or buying, property of any kind;
- (c) leasing of property of any kind;
- (d) availing or rendering of any services;
- (e) appointment of any agent for purchase or sale of goods, materials, services or property;
- (f) such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
- (g) underwriting the subscription of any securities or derivatives thereof, of the company.

Relative

In terms of Section 2(77) of the Companies Act, 2013 read with the Companies (Specification of definitions details) Rules, 2014 a person is said to be a relative of another, if

- a) They are members of a Hindu undivided family;
- b) They are husband and wife;
- c) Father (including step-father);
- d) Mother (including step-mother);
- e) Son (including step-son);
- f) Son's wife;
- g) Daughter;
- h) Daughter's husband;
- i) Brother (including step-brother); or Sister (including step-sister).

PART - C

TERMS OF THE POLICY

All Related Party Transactions will be subject to following approval matrix, as may be applicable:

Provisions	Ceiling on the Amount	Approval Required		
		Audit Committee	Board of Directors	Shareholders (Ordinary Resolution)*
Transactions either not in the <u>ordinary course of business</u> or <u>arm's length basis</u>				
Sale, purchase or supply of any goods or materials, directly or through appointment of agent.		√	√	Exceeding 10% of the turnover or Rs. 100 crore, whichever is lower
Selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent.		√	√	Exceeding 10% of the net worth or Rs. 100 crore, whichever is lower
Leasing of property of any kind.		√	√	Exceeding 10% of the turnover or 10% of the net worth, or Rs. 100 crore, whichever is lower
Availing or rendering of any services, directly or through appointment of agent.		√	√	Exceeding 10% of the turnover or Rs. 100 crore, whichever is lower
Appointment of any related party to any office or place of profit in the Company, its subsidiary company or associate company.		√	√	Monthly remuneration exceeding two and half lakh rupees.
underwriting the subscription of any securities or derivatives thereof, of the Company:		√	√	Remuneration exceeding 1% of net worth.
any other transaction with related parties, other than those		√	For Transactions that are not on	<u>Exceeding 10% of the</u> annual consolidated turnover of the Company.

Provisions	Ceiling on the Amount	Approval Required		
		Audit Committee	Board of Directors	Shareholders (Ordinary Resolution)*
covered above, resulting in transfer of resources, obligations or services			arm's length basis.	

* Note: Related Parties that are parties to the contract shall abstain from voting.

PART – D

GOVERNANCE STRUCTURE

1. Identification of Related Parties and Related Party Transactions

The Compliance Officer shall:

- a. Identify and keep on record the Company's Related Parties, along with their personal/company details.
- b. Update the record of Related Parties whenever necessary and shall be reviewed at least once a year, as on 1st April every year.
- c. Furnish on a quarterly basis to the Personnel, who are responsible for entering into contracts/ arrangements/ agreements with entities for and on behalf of the Company, and circulate the list of Related Parties along with the approval thresholds for entering into transactions with such enlisted Related Parties.
- d. Place the record of Related Parties before the Audit Committee [*annually*]
- e. Ensure that internal systems have been created to ensure that the transactions are not related to the contracting parties and alternative approving authorities are put in place. The internal systems shall be placed before the Audit Committee for effective monitoring of all Related Party Transactions.
- f. Ensure that the Chief Financial Officer and in his absence the Compliance Officer of the Company furnishes a certificate to the Audit Committee annually relating to all material, financial and commercial transactions with Related Parties, where they have personal interest that may have a potential conflict with the interest of the listed entity at large.

2. Ascertaining whether Related Party Transactions are on an Arm's Length Basis

- (i) The following illustrative tests may be used by the Audit Committee for ascertaining arm's length nature of contracts/ arrangements that may be entered into by the Company with related parties, or any modification, variation, extension or termination thereof: -
 - a. The contracts/ arrangements are entered into with Related Parties, are at such prices/ discounts/ premiums and on such terms which are offered to unrelated parties of similar category/ profile.
 - b. The contracts/ arrangements have been commercially negotiated.
 - c. The pricing is arrived at as per the rule/guidelines that may be issued by or acceptable for the purpose of RBI/ Ministry of Corporate Affairs, Government of India/ Income Tax Act, 1961, as applicable to any of the contract/ arrangements contemplated under the Companies Act, 2013, Rules framed thereunder.
 - d. The terms of contract/arrangement other than pricing are generally on a basis similar to those as may be applicable for similar category of goods and services or similar category/ profile of counterparties.
 - e. Such other criteria as may be issued under Applicable Law.

- (ii) Further, in order to determine the optimum arm's length price, the Company may also apply the most appropriate method from any of the following methods as prescribed under Section 92C(1) of the Income Tax Act, 1961 read with Rule 10B of the Income Tax Rules, 1962 –
 - a. Comparable Uncontrolled Price method (CUP method)
 - b. Resale Price Method
 - c. Cost Plus Method
 - d. Profit Split Method
 - e. Transactional Net Margin Method
 - f. Other Method as prescribed by the Central Board of Direct Taxes
- (iii) The Audit Committee shall be entitled to rely on professional opinion or representation from the counter party in this regard.
- (iv) Notwithstanding the above, whether a particular transaction is on arm's length basis or not, is a decision to be taken by the Board of Directors and the Audit Committee of Directors of the Company. Once the Board of Directors on the recommendation of Audit Committee, determines that the relevant transaction has taken place on an arm's length basis, so long as they have reasonable basis for the same their decision shall be final.

3. Ascertaining whether Related Party Transactions are in the Ordinary Course of Business

- i. Although the term “Arm's Length Basis” has been defined under Section 188 of the Companies Act, 2013, what transactions would be considered to be in the “ordinary course of business” has not been specified under the Companies Act, 2013. In the case of *Seksaria Biswan Sugar Factory Ltd. vs. Commissioner of Income Tax, Bombay*¹, the Bombay High Court, in relation to what constitutes ‘ordinary course of business’, observed that “it must be found as to whether the particular act has any connection with the normal business that the company is carrying on and whether it is so related to the business of the company that it can be considered to be performed in the ordinary course of the business of that company.”
 - A. Therefore, in order to determine whether a transaction is within the ordinary course of business or not, some of the principles that may be adopted to assess are as follows:
 - a) whether the transaction is in line with the usual transactions, customs and practices undertaken by the company to conduct its business operations and activities,
 - b) whether it is permitted by the Memorandum and Articles of Association of the company; and
 - c) whether the transaction is such that it is required to be undertaken in order to conduct the routine or usual transactions of a company.
 - B. Any of the following conditions are met:
 - a) The transaction, including, but not limited to sale or purchase of goods or property, or acquiring or providing of services, conveying or accepting leases, transfer of any resources, hiring of any executives or other staff, providing or availing of any guarantees or collaterals, or receiving or providing any financial

assistance, or issue, transfer, acquisition of any securities, is in the normal routine of the Company's business; or

- b) The transaction is in the nature of reimbursements, received or provided, from or to any related party, whether with or without any mark-up towards overheads, and is considered to be congenial for collective procurement or use of any facilities, resources, assets or services and subsequent allocation of the costs or revenues thereof to such related party in an appropriate manner; and

C. The transaction is not

- a) an exceptional or extra ordinary activity as per applicable accounting standards or financial reporting requirements;
- b) any sale or disposal or any undertaking of the Company, as defined in explanation to clause (a) of sub-section (1) of section 180 of Companies Act, 2013.

4. Procedure for approval and review of Related Party Transactions

- (i) Subject to the threshold limits specified below, all Related Party Transactions or changes therein must be referred for prior approval by the Audit Committee in accordance with this Policy.
- (ii) The threshold limits for approvals will be as follows:
 - a. The transactions, for which omnibus approval of the Audit Committee has already been sought, will not require prior approval of the Audit Committee for each transaction entered into pursuant to the same.
 - b. Transactions above the value of Rs.1 crore per transaction may be granted omnibus approval by Audit Committee subject to criteria specified under Clause 5 below. Such transactions shall be reported to the Audit Committee on a quarterly basis.
 - c. Where the need for related party transaction cannot be foreseen and the details thereof are not available, the Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs. 1 crore per transaction. Such transactions shall also be reported to the Audit Committee on a quarterly basis.
 - d. Transactions other than those referred to in Section 188 of the Companies Act, 2013 between the Company and Housing Development Finance Corporation Limited ('the Corporation'), would not require the omnibus approval of the Audit Committee (the Company being a wholly-owned subsidiary of the Corporation). Such transactions shall be reported to the Audit Committee on a quarterly basis.
- (iii) Related Party Transactions that are not in ordinary course of business but on arm's length basis may be approved by Audit Committee. Where such Related Party Transactions fall under Section 188 (1) of the Act, the Audit Committee shall recommend the transaction for approval of the Board.

- (iv) All relevant facts pertaining to a Related Party Transaction shall be placed with the Audit Committee, inclusively:
 - a. the name of the related party and nature of relationship;
 - b. the nature, duration of the contract and particulars of the contract or arrangement;
 - c. the material terms of the contract or arrangement including the value, if any;
 - d. any advance paid or received for the contract or arrangement, if any;
 - e. any other information relevant or important for the Committee to take a decision on the proposed transaction.
- (v) Audit Committee shall be entitled to call for such information/ documents in order to understand the scope of the proposed related party transaction(s) and recommend an effective control system for the verification of the supporting documents.
- (vi) In determining whether approval can be accorded to a Related Party Transaction, the Audit Committee shall consider the following factors:
 - a. whether the Related Party Transaction is in the ordinary course of business of the Company;
 - b. whether the terms of the Related Party Transaction is on arm's length basis;
 - c. whether there are any adequate reasons of business expediency for the Company to enter into the Related Party Transaction, after comparing alternatives available, if any;
 - d. whether the Related Party Transaction would affect the independence of any director / key managerial person;
 - e. whether the proposed Related Party Transaction includes any potential reputational / regulatory risks that may arise as a result of or in connection with the proposed transaction; and
 - f. whether the Related Party Transaction would present an improper conflict of interest for any director or key managerial personnel of the Company, taking into account the size of the transaction, the overall financial position of the Related Party, the direct or indirect nature of interest of the Related Party in the transaction and such other factors as the Audit Committee deems relevant.
- (vii) If the Audit Committee determines that a Related Party Transaction should be brought before the Board of Directors, or if the Board in any case elects to review any such matter or it is mandatory under any law for Board to approve the Related Party Transaction, then the Board shall consider and approve the Related Party Transaction at a meeting and the considerations set forth above shall apply to the Board's review and approval of the matter, with such modification as may be necessary or appropriate under the circumstances.
- (viii) If the Related Party Transaction needs to be approved at a general meeting of the shareholders by way of a resolution pursuant to Applicable Law, the Board shall ensure that the same be put up for approval by the shareholders of the Company.
- (ix) Where, owing to exigencies, Related Party transactions have been entered into without being placed for prior approval by the Audit Committee, reasoned explanation for the same must be received from the contracting employees to the satisfaction of the Audit Committee. The Audit Committee may ratify such transactions, or may put forth the transactions before the Board along with its recommendations, and the Board may either

ratify such transactions or seek to avoid the same. The Audit Committee recommendations may also include appropriate measures against the contract employee authorising such transactions without prior approval of the Audit Committee. If approval of the Board / general meeting, where applicable, for entering into a Related Party Transaction is not feasible, then the Related Party Transaction shall be ratified by the Board / general meeting, if required, within 3 months of entering in the Related Party Transaction.

In any case where either the Board / shareholders determines not to ratify a Related Party Transaction that has been commenced without approval, the Committee or Board or the shareholders, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction, or modification of the transaction to make it acceptable for ratification. In connection with any review of a Related Party Transaction, the Board has authority to modify or waive any procedural requirements of this Policy.

- (x) No member of the Audit Committee/ Board shall participate in the review or approval of any Related Party Transaction in which such member is interested, except that the director / Key Managerial Personnel shall provide all material information concerning the Related Party Transaction to the Audit Committee / Board.

Exceptions allowed under Applicable Laws for Related Party Transactions shall be exempted from the scope of this Policy unless the Audit Committee/ Board decide otherwise.

- (xi) Nothing in this Policy shall override any provisions of law made in respect of any matter stated in this Policy.

5. Omnibus Approval by the Audit Committee

- (i) In case of certain frequent/ repetitive/ regular transactions with Related Parties which are in the ordinary course of business of the Company (including transactions for support services / sharing of services with companies), the Audit Committee may grant an omnibus approval for such Related Party Transactions proposed to be entered into by the Company, subject to the following conditions:
 - a. The Audit Committee shall grant such omnibus approval in line with this Policy based on the following criteria:
 - i. Frequency of the transactions, based on either the past record of similar transactions, or expected frequency during the current financial year; volumes of transactions undertaken with such Related Party. The maximum value of the transactions, per transaction or in aggregate, shall not exceed 10% of annual consolidated turnover of the Company, whichever is lower.
 - ii. Disclosure of the following matters to the Audit Committee at the time of seeking omnibus approval in a manner so as to enable effective decision making:
 - a. Projected growth rate in the business with the Related Party in the financial year for which omnibus approval is sought;
 - b. Contractual terms offered by other parties for similar transactions;
 - c. Adherence to any conditions on the contractual terms with such Related Parties, for instance, floor and cap on the pricing, credit terms, escalation in costs, quality checks etc.

- b. Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the business interest of the Company.
- c. Such omnibus approval shall specify the following:
 - i. the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transaction that can be entered into;
 - ii. the indicative base price or current contracted price and the formula for variation in the price, if any;
 - iii. The maximum transaction values and/or the maximum period for which the omnibus approval shall be valid; and
 - iv. such other conditions as the Audit Committee may deem fit;

Provided that where the need for Related Party Transaction cannot be foreseen and the aforesaid details are not available, the Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs. 1 Crore per transaction.

- (ii) The details of such transactions viz. actually entered into/ executed by the Company will be tabled for review before the Audit Committee.
- (iii) Exceptions allowed under Applicable Laws to Related Party Transactions shall be exempted from the scope of this policy unless the Audit Committee decides otherwise.
- (iv) Omnibus approval granted after 1st April, 2016 shall be reviewed at the last meeting of every preceding financial year and such approvals shall be valid till the conclusion of the immediately following financial year.
- (v) Notwithstanding the generality of foregoing, Audit Committee shall not grant omnibus approval for following transactions:
 - a. Transactions which are not in ordinary course of business or not on arm's length basis and covered under Section 188(1) of the Companies Act, 2013;
 - b. Transactions in respect of selling or disposing of the undertaking of the Company;
 - c. Transactions which are not in the interest of the Company;
 - d. Such other transactions specified under Applicable Law from time to time.

PART - E

DISSEMINATION OF INFORMATION

The Company shall disclose this Policy wherever it is required by the applicable laws.

The Company shall also make relevant disclosures in its Annual Report and maintain such registers as required under the provisions of the Companies Act, 2013, and Rules made thereunder.
